

SUBJECT
(Master Set)

CC PC

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10 DOWNING STREET

From the Private Secretary

8 February 1985

Transfer of Carbon-Carbon Technology to the USSR

The Prime Minister held a meeting this morning with the Defence Secretary, Mr Channon, Mr Luce and Mr Hayhoe to discuss the problem posed by the export of certain machinery by Consarc Engineering Ltd to the Soviet Union. Sir Percy Cradock and Mr Cartledge were also present.

The Defence Secretary said that the machinery concerned could be employed in manufacturing critical carbon-carbon components for missiles. The specifications for the contract had been written in such a way as to evade COCOM restrictions. We were under strong pressure from the United States to prevent export of the machinery in question. There were strong grounds to be suspicious about Consarc Engineering: the American parent company appeared to have directed the contract to its British subsidiary in order to evade American controls: the Managing Director's wife was a Soviet citizen. An urgent decision was required, as there was a risk that an attempt would be made to export the equipment in question before the middle of the month.

The Minister of Trade agreed that export of the machinery must be prevented. But during the Siberian pipeline dispute we had made the sanctity of contracts a point of principle. It would be an undesirable precedent to override retrospectively contract terms which had been entered into perfectly legally. There could also be serious implications for our trade with the Soviet Union just at the moment when we were hoping for a considerable expansion following Mr Gorbachev's visit. The possibility of persuading the Americans to stop the delivery should be explored. It should be noted that there would be a liability of £7 million on ECGD if the contract was broken.

In discussion it was pointed out that action by the United States might well involve unacceptable exercise of their extraterritorial jurisdiction. The case was not on a par with the Siberian Pipeline dispute, since national security considerations were quite clearly involved. The machinery in question might be small and portable and steps would be needed to ensure that a ban on export was not evaded.

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Summing up, the Prime Minister said that it was quite clear that an important national security consideration was involved. An order should be made without delay to ban the export of the machinery. The liability on ECGD would have to be accepted. The decision should be presented to the Soviet Government as an exceptional one, taken on national security grounds and without implications for our overall attitude towards trade with the Soviet Union. In informing the US Administration of our action, we should underline that it was the activities of an American company which had forced us to put our wider trade interests at risk. Every effort must be made to ensure that the ban was not evaded. It was regrettable that matters had been allowed to reach such a critical stage before Ministers were alerted to the issue, even though we had apparently received the American assessment of the risks more than two months previously. The Minister of Trade should look into the handling of the matter, to see what lessons could be learned.

I understand that the consignment has subsequently been intercepted.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Callum McCarthy (Department of Trade and Industry), Rachel Lomax (HM Treasury) and Bryan Cartledge (Cabinet Office).

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.